

Message Text

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73

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SUBJECT: PROSPECTS FOR NEW ZEALAND'S ECONOMY IN 1975

SUMMARY

1. ACCORDING TO A GROWING NUMBER OF INFORMED OBSERVERS 1975 WILL BE A CRUCIAL YEAR FOR THE NEW ZEALAND ECONOMY. IT WILL ALSO BE A YEAR OF CHALLENGE FOR THE LABOUR GOVERNMENT. THE FOREMOST CONCERNS OF THE LABOUR GOVERNMENT AS NEW ZEALAND STARTS 1975 ARE N.Z.'S WORSENING TERMS OF TRADE, INFLATION AND A POSSIBLE PRONOUNCED SLACKENING OF ECONOMIC ACTIVITY WITH A GROWTH IN UNEMPLOYMENT. END SUMMARY.

2. ACCORDING TO LATEST RESERVE BANK OVERSEAS EXCHANGE TRANSACTIONS FIGURES NOVEMBER EXPORTS TOTALLED ONLY \$NZ118 MILLION, LOWEST MONTHLY FIGURE IN TWO YEARS, MAKING EXPORTS FOR THE YEAR ENDING NOV 1974 DROP TO \$NZ 1,743 MILLION FROM \$NZ1,843 MILLION FOR THE YEAR EARLIER (A DECLINE OF 5.4 PERCENT). THE FALL IN EARNINGS FOR MEAT (DOWN 17 PERCENT) AND WOOL (DOWN 22 PERCENT) WAS THE PCINCIPAL CUASE FOR THE DROP IN TOTAL EXPORT RECEIPTS BETWEEN THE NOV 1973 AND 1974 YEARS.

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3. PRIVATE IMPORTS, AFTER NEARLY REACHING \$NZ210 MILLION

FOR THE MONTH OF MAY 1974 STILL HOVERED AT OVER \$NZ200 MILLION IN NOV FOR A TOTAL FOR THE YEAR ENDING NOVEMBER 1974 OF NEARLY \$NZ 2,109 MILLION, 51 PERCENT HIGHER THAN THE NOV 1973 YEAR. THE CURRENT ACCOUNT BALANCE FOR THE NOV 1974 YEAR STOOD AT MINUS \$NZ718.9 MILLION (VS. A DNZ 184.6 MILLION SURPLUS FOR THE NOV 1973 YEAR).

4. THE GOVERNMENT STATISTICIAN ESTIMATES MONTHLY PRIVATE IMPORT PAYMENTS WILL AVERAGE \$NZ168 MILLION IN THE MARCH TO MAY 1975 PERIOD, BRINGING THE MAY 1975 YEAR TOTAL TO \$NZ21,171 MILLION, OVER 25 PERCENT ABOVE THE SAME PERIOD A YEAR EARLIER.

5. WITH NO PRESENT ENCOUAGING SIGNS THAT THE VALUE OF EXPORTS WILL RISE, THE GAP BETWEEN EXPORT RECEIPTS AND IMPORT PAYMENTS WILL REMAIN LARGE AND MAY INCREASE.

6. WHETHER THE GN'S RELATIVELY MILD ECONOMIC MEASURES (INCLUDING HOLDING OF THE JANUARY COST OF LIVING WAGES AND SALARIES INCREASE TO 4 PERCENT) ANNOUNCED IN DEC WILL SUFFICIENTLY REDUCE THE CONTINUED STRONG INFLATIONARY PRESSURES IS THE SUBJECT OF CONSIDERABLE SPECULATION AMONG KNOWLEDGEABLE OBSERVERS. HOWEVER, NO CLEAR CONSENSUS HAS EMERGED. A GROWING NUMBER PREDICT FURTHER ECONOMIC MEASURES WILL BE NECESSARY EARLY IN 1975.

7 WITH CONTINUED TIGHT LIQUIDTY AND RISING LABOUR AND OTHER COSTS, BUSINESS CONFIDENCE HAS BEEN STEADILY WANING. FARMERS, HARDEST HIT OF ALL ECONOMIC SECTORS, ARE BECOMING INCREASINGLY CRITICAL AND DEMANDING OF ACTION TO HELP THEM OUT OF THE SQUEEZE BETWEEN INCREASING COSTS AND FALLING INCOMES. LABOUR CONTINUES TO BE ON THE ALERT AGAINST ANY GOVERNMENT MEASURES WHICH MAY PLACE UNDUE BURDEN ON THE WAGE EARNER.

8. THOUGH UNEMPLOYMENT IS STILL VERY LOW THERE ARE GROWING PREDICTIONS OF A SIGNIFICANT INCREASE STARTING ABOUT MARCH 1975 UNELESS STEPS ARE TAKEN SOON BY THE GOVERNMENT TO STIMULATE BUSINESS AND INDUSTRIAL ACTIVITY.
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9. THE PATTERN OF HEAVY OVERSEAS BORROWING INITIATED DURING 1974 TO BRIDGE THE GAP BETWEEN IMPORT EXPENDITURES AND EXPORT RECEIPTS CANNOT BE SUSTAINED INDEFINITELY. ON THE BASIS OF CURRENT MARKET AND GENERAL ECONOMIC DEVELOPMENTS ABROAD THERE IS LITTLE EXPECTATION OF INCREASING EXPORT EARNINGS DURING 1975 OF MEAT AND WOOL, NZ'S PRINCIPAL EXPORTS. THERE IS A POSSIBILITY THAT

DAIRY PRODUCT EARNINGS COULD DECLINE. THE PRESSURE ON THE GOVERNMENT TO TAKE MEASURES DESIGNED TO RESTRICT "UNESSENTIAL" IMPORTS WILL INCREASE. SO FAR, THOUGH THERE HAVE BEEN INDIRECT MEASURES TO DISCOURAGE DEMAND FOR IMPORTS (SUCH AS HIGHER TAXES ON CAR SALES), THERE ARE NO INDICATIONS NEW DIRECT IMPORT CONTROLS ARE IN THE OFFING BUT IMPORT LICENSES ARE BEING GRANTED ONLY ON THE BASIS OF CLEARLY PROVEN NEED SUCH AS MAINTAINING INDUSTRIAL ACTIVITY.

10) WITH 1975 AN ELECTION YEAR THE LABOUR GOVERNMENT CLEARLY FACES A REAL CHALLENGE. IT WILL HAVE TO TAKE FURTHER MEASURES TO STAVE OFF GREATER DETERIORATION OF THE ECONOMY. SOME MEASURES WILL LIKELY HAVE TO CALL FOR INCREASED COOPERATION, SACRIFICE AND UNDERSTANDING OF ALL QUARTERS OF THE COMMUNITY. WHETHER THE GOVERNMENT CAN SUCCESSFULLY IMPLEMENT THESE AND MAINTAIN VOTER SUPPORT FOR THE NOVEMBER ELECTIONS WILL BE THE SIXTY-FOUR DOLLAR QUESTION.
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